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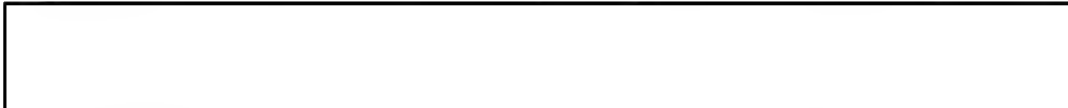
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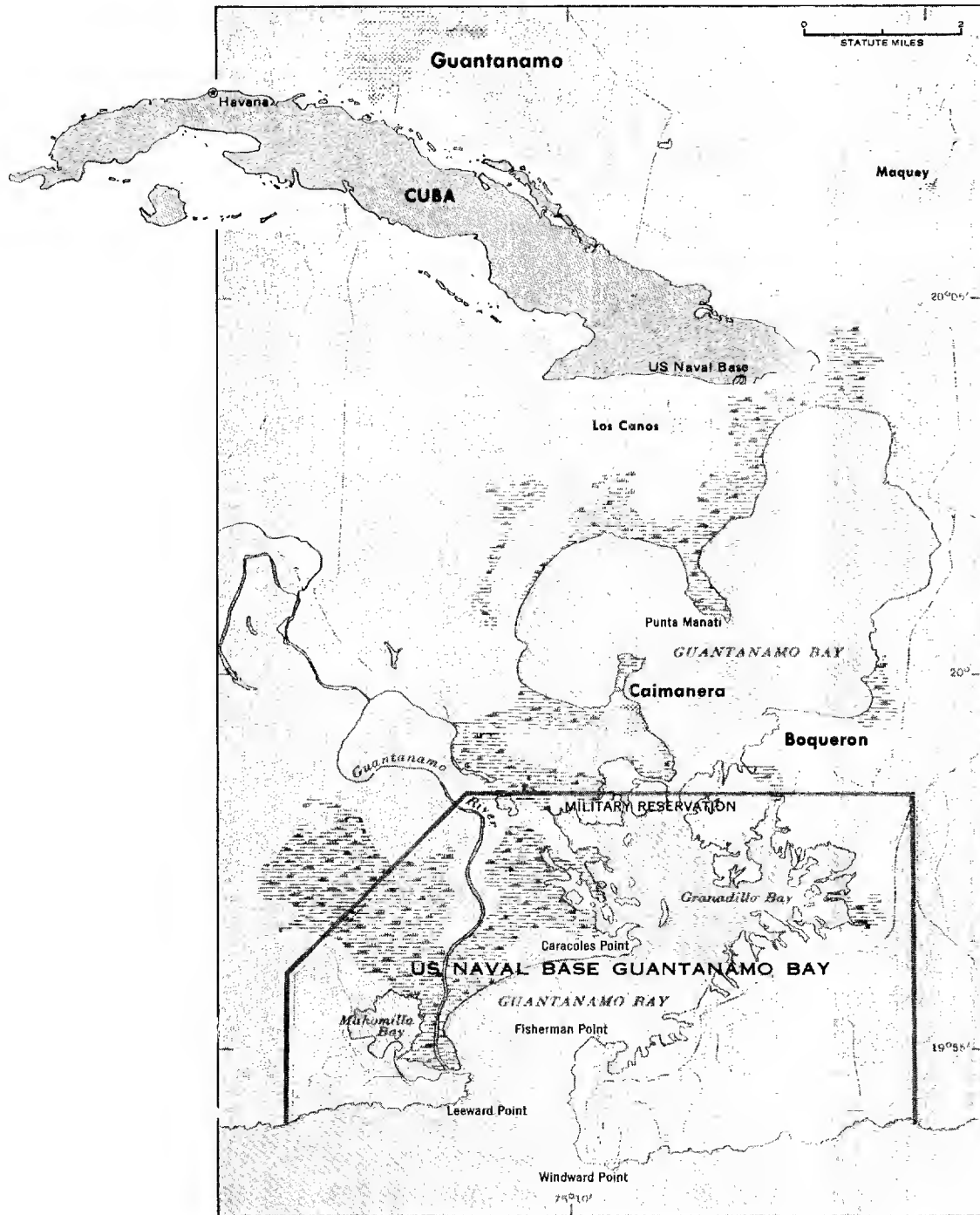
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CUBA-US: The Castro government may attempt to create an incident at the Guantanamo Naval Base this weekend to draw international attention to its long-standing claims that the US military presence there is illegal. There is no evidence, however, that the Cubans plan any kind of armed attacks against the base.

The most likely focus of such an incident would be the scheduled passage through base-controlled waters of several Cuban merchant ships carrying members of Cuba's Union of Communist Youth on a round-island tour. [REDACTED]

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[REDACTED] The merchant ships now are proceeding eastward along the southern coast of the island.

Since last November, the Cuban Government has evinced an unusual interest in the Guantanamo issue through both public and private means. The joint Soviet-Cuban communiqué issued on 1 November at the conclusion of Soviet Premier Kosygin's visit protested the "unlawful presence of the North American military base at Guantanamo."

Castro has long maintained that Cuba intends to gain "rightful" control over Guantanamo at "the proper time" through legal and peaceful means. [REDACTED]

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EGYPT: President Sadat offered no new military or political breakthroughs to the Egyptian people in his first address to the nation since he returned from Moscow earlier this month.

Speaking to a national congress of the Arab Socialist Union yesterday, Sadat stressed that "patience and silence" were required during the present phase of the struggle with Israel. He again recounted the events of the last three months which necessitated a "recalculation" of the situation so as to put the nation on a better footing for the struggle. Sadat chastised the US for impeding progress in the diplomatic arena and alleged that recent manifestations of support for Israel were attempts by the US to recoup its losses in the Indo-Pakistani conflict.

Sadat declined to make public any details of his recent trip to Moscow, saying that they would be revealed during a closed party meeting today. Although Sadat again characterized the visit as "highly successful," he gave little indication that he had arranged any new arms deals. In an apparent attempt to put the best face possible on the Moscow talks, Sadat subsequently urged concerted efforts "to absorb sophisticated weapons" and threatened to strike Israel "deep in its territory" if it attacks Egypt's interior.

The government's concern over the possibility of a recurrence of student unrest was evident in Sadat's remark that the nation's youth might be in a state of "exhausted patience." He referred to the intensive dialogue taking place between student representatives and government officials since the student demonstrations last month, and warned that students should convey further expressions of frustration "through the establishment." Although there was little in the speech to alleviate student unhappiness over the no war - no peace situation, Sadat appealed for their understanding and announced

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that he had ordered the release of the remainder of hard-core students detained during the January protests.

In a move he may hope will have a sobering influence, Sadat ended his speech by threatening to step down from the presidency if he loses the confidence of the people. He did not, however, indicate that he was seriously thinking of such a gesture at present.

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PAKISTAN: The economic situation has worsened during the past month.

Industry is operating at less than a third of capacity, according to the US Embassy. Failure of the government to establish economic priorities, loss of markets in Bangladesh, and the halt in new foreign aid have led to increased investor uncertainty and poor morale among management. Labor unrest has been expressed in a series of crippling strikes.

The agricultural outlook has brightened somewhat in the last two weeks as badly needed rain has broken the drought. Recent harvests of cotton and rice are described as exceptionally good. Prospective land reforms, however, will complicate the agricultural situation. Bhutto must choose between the probable disruption to production and the effect on government revenues of large-scale reallotments of land, and popular resentment if reforms are moderate in scope.

Although imports have been reduced and exports are strong, the trade deficit remains large. The extended deadline for foreign exchange repatriation has passed with little in the way of new inflows.

Japan has confirmed that Islamabad resumed interest payments on outstanding loans. According to the US Embassy in Islamabad, Tokyo's delay of pipeline deliveries probably influenced the resumption of the payments. Rome has denied a Japanese report that Italy also had received interest payments.



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ECUADOR: The country is calm following the coup, and there has been no popular movement in support of either the ousted President Velasco or Assad Bucaram, against whose presidential candidacy the military moved.

The army commander in Guayaquil [REDACTED]

[REDACTED] apparently has come down on the side of President Rodriguez. To consolidate the new government's position in that area, the naval zone commander has been named as chief of civil and military affairs. In addition, the government has arrested two men who served as cabinet ministers under Velasco and had gone to the airport to bid him farewell. Bucaram has gone into hiding.

Rodriguez' government may have to take at least a moderately reformist line in order to appease those younger officers who supported Bucaram. The more nationalistic-minded officers may try to manipulate Rodriguez or, eventually, oust him if they believe his administration is too protective of the status quo. Some Ecuadorean officers have expressed admiration for the Peruvian military government and may attempt to emulate it. The new government probably will make little modification in the present policy with respect to Ecuador's claim to a 200-mile territorial sea limit. [REDACTED]

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EUROPEAN COMMUNITIES: The EC's system of preferential agreements in the Mediterranean will soon be extended.

Negotiations between the community and Egypt and Lebanon have been stalled for a year by the Arabs' insistence that their national legislation requires them to discriminate against EC firms and individuals dealing with Israel. A solution to this impasse reportedly has been reached in which the community would in effect turn a blind eye to the Arab boycott.

There has been substantial agreement for some time on provisions of the five-year arrangements. The EC is offering a 50-percent cut in industrial tariffs, with certain exceptions, in return for a 40-percent reduction in Egyptian and Lebanese tariffs on a more limited list of industrial products. The final negotiations may be complicated, however, by increased import restrictions contemplated as part of Egypt's austerity program. The community also is offering the 40-percent duty reduction on citrus imports previously offered to Cyprus and already included in the EC-Israeli agreement.

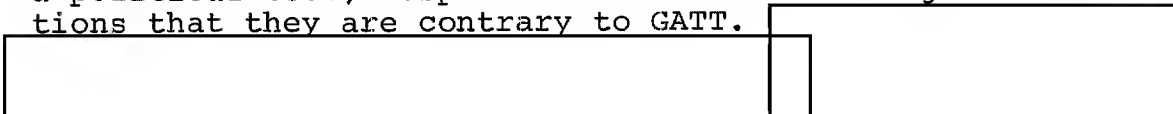
The agreements with Egypt and Lebanon are intended by the EC to balance its agreement with Israel. More generally, they reflect the community belief that preferences are one means of extending Europe's influence in the Mediterranean. The community is presently considering requests from Israel, Spain, and Malta to renegotiate existing agreements in order to meet the problems they will face when Britain joins the EC. In addition to talks with Cyprus on an association arrangement, renegotiations of the association agreements with Turkey and Greece have begun, and similar talks will begin with Morocco and Tunisia later this year.

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The over-all problem of rationalizing the community's "Mediterranean policy" is, meanwhile, being taken up by the EC's machinery for political consultations. It remains doubtful that this policy review will lead the EC to abandon preferences as a political tool, despite the well-known US objections that they are contrary to GATT.



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CHINA: Peking is intensifying its efforts to reinstate veteran civilian officials who came under severe criticism during the Cultural Revolution.

The provincial press has claimed with increasing frequency in the past two weeks that 90 to 95 percent of local cadres have been politically rehabilitated. Many of the officials have returned to their previous positions or to equally responsible posts. The veteran cadre issue has been repeatedly debated since the closing out of the Cultural Revolution. Propaganda treatment has shifted back and forth between the need to use these experienced officials "boldly" and the demand that they undergo further self-criticism and ideological remolding. The current campaign is weighted in favor of employing the greatest possible number of these people and suggests that a fundamental consensus has been reached.

Veteran cadres, in fact, have returned to their jobs in growing numbers in recent years. But progress toward a restoration and reordering of the bureaucratic structure has been seriously hampered by the enhanced political role of the military and by the vigorous resistance of radical elements to the reinstatement of officials whom they previously had helped purge.

The ouster of some ranking radical politburo members, a prolonged drive against "ultraleftism" in the provinces, and reassertions of the paramountcy of the party in the wake of the Lin Piao affair all indicate that the latest attempt to return to pre-Cultural Revolution organizational norms will be more systematic and determined than previous efforts. Nevertheless, the need to rejuvenate the shattered morale of many of the reinstated cadres and to achieve a balance between civilian and military authority poses problems not easily resolved even with the changed political climate in Peking.

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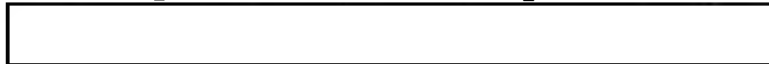
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JAPAN: The balance of payments continued to show considerable strength in January, and the value of the yen rose to a record high level by mid-February.

A \$170-million trade surplus was achieved despite seasonal trends that historically have caused trade deficits for the first months of the year. The trade surplus resulted from a 24-percent increase in exports, due in part to large increases in sales to the US of automobiles, synthetic textiles, and clothing. More than half of this increase in dollar sales, however, resulted from the fact that Japanese exporters raised their dollar prices rather than absorb the impact of revaluation in lower yen prices. Imports rose only ten percent while those from the US declined because of reduced grain shipments. The west coast dock strike, however, may have distorted normal trading patterns between the US and Japan.

A short-term capital inflow of \$440 million, due mainly to prepayments on export contracts, also aided the payments balance. As a result, official reserves increased \$722 million and approached \$16 billion at the end of January.

In mid-February the yen reached a record high of 303 to the dollar. This is near the high end of the permissible band on the new exchange rates established in December 1971 and is 18.8 percent above the pre-August 1971 parity level. The Bank of Japan apparently is not interfering significantly in the foreign exchange market and, according to its governor, no decision has been reached on the point at which the bank will try to stabilize the yen-dollar exchange rate.

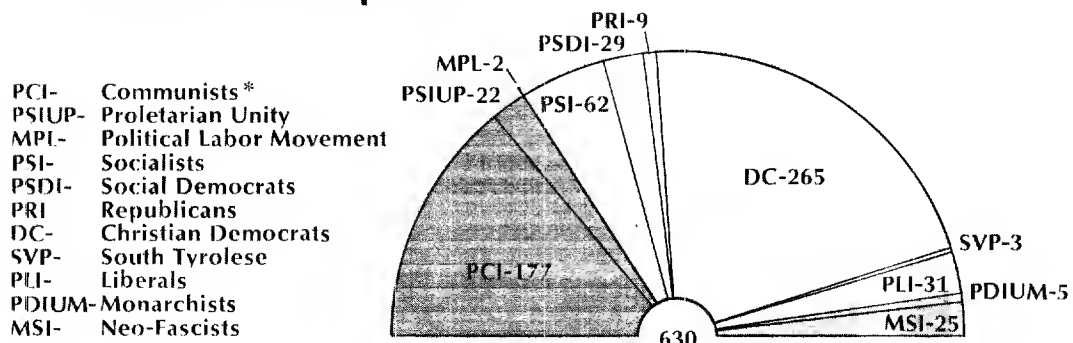


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Chamber of Deputies



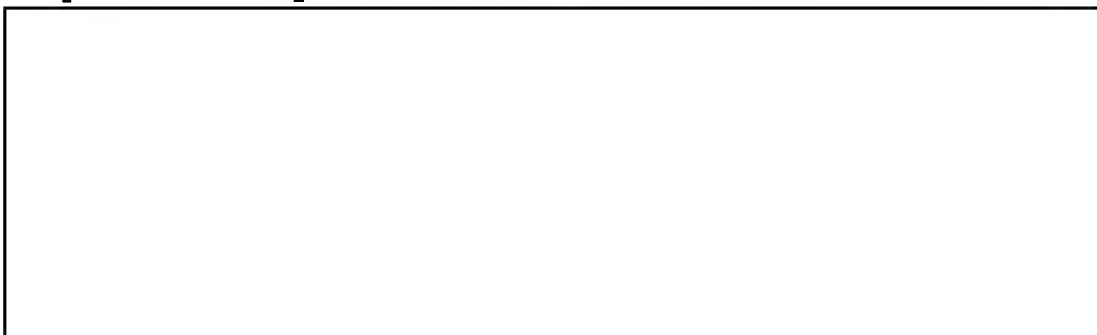
* Includes Manifesto dissidents and Independents of the Left.

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ITALY: The Christian Democratic party decided on 15 February to form a single party government under Giulio Andreotti to lead the country into parliamentary elections.



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The Christian Democrats' decision antagonizes their former government partners, the Socialists and the Social Democrats, and is opposed by their own left sector under Foreign Minister Moro. Implementation of the decision would make more difficult any reformation of the normal center-left coalition after the election. Right-wing Christian Democrats believe, however, that dissociation from the Socialists would be of substantial, perhaps critically important, help in campaigning against the Neo-Fascists in the parliamentary elections.



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GHANA: Accra's Western creditors are meeting today in London for an initial exchange of views on Ghana's bid for relief from its heavy debt burden.

Reconsideration of the debt problem was precipitated by Ghana's announcement on 5 February that it was repudiating a portion of its Nkrumah era medium-term debt which was allegedly tainted by corruption. On other debts, Ghana unilaterally announced changes in repayment terms.

The British, Ghana's largest creditor, called the meeting to develop a coordinated, fairly hard-line, multilateral approach. The Netherlands, Belgium, and Norway are also inclined to a tough reaction. Germany, France, and Italy seem more sympathetic to Ghana's plight. All are concerned about setting precedents that might be used by other debtor countries.

Although the junta has ruled out meeting with Ghana's creditors as a group, it has hinted that the debt repudiation announcement may be subject to negotiation. The Ghanaians have asked the World Bank to mediate their disputes with creditors, taking into account the country's broader economic problems. The position of the creditors on Ghana's debts will have a substantial impact on the new government's attitude toward the West and on its economic policies, which are still in a state of flux.

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MALTA: In talks with Prime Minister Mintoff, Italian officials were given the impression that he now favors concluding an agreement with Britain if some face-saving device can be found. Mintoff informed the Italian ambassador to Malta that he had abandoned his intention of seeking additional money from Libya but still needs an immediate cash payment larger than that offered by the UK and its NATO allies. Rome has advanced a compromise formula that would increase the amount of money immediately available and has suggested that it might be useful if Prime Minister Heath invited Mintoff to London--a trip the Maltese leader apparently wants to make. In the absence of an agreement, London is continuing its withdrawal and has set 25 February as the deadline for dismissal notices to all Maltese employed by the British.

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YUGOSLAVIA: Anti-Tito Croatian emigres reportedly plan more attacks on Yugoslav missions and airliners abroad and against Western airlines carrying large numbers of Yugoslav passengers. Airport security in Sweden and West Germany already has been tightened around all Yugoslavia-bound flights. Belgrade takes the threat seriously, following four bombings last month.

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GUYANA: In keeping with his stated policy of political non-alignment and diminished economic dependence on the West, Prime Minister Burnham is continuing to seek expanded relations with the Communist world. He reportedly is considering the establishment of trade, and possibly diplomatic, relations with Cuba. Guyana has had non-resident diplomatic relations with the USSR since December 1970, and the two countries now are conducting trade on a small scale. A trade agreement was signed with China last November and a permanent Chinese trade mission is expected in Georgetown by the end of this month. Burnham also is considering the establishment of trade relations with East Germany, Romania, and Yugoslavia. Although the potential economic gains from expanded contacts with Communist countries appear limited, Burnham apparently feels that such moves will strengthen his domestic political position and enhance his credentials as a third world leader.

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